TGS Texas Gulf Sulphur Company 1967 Annual Report

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New York, New York

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TEXAS GULF SULPHUR COMPANY
(INCORPORATED)
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Head office
is New York →
Toronto is
Canadian office

For Immediate Release

The following remarks were made by Claude O. Stephens, president of Texas Gulf Sulphur Company, at the company's annual meeting of stockholders today (April 27, 1967) in Houston, Texas.

It is a pleasure to be back in Houston this year, the traditional home of our annual meeting of stockholders. I want to thank all of you for taking the time to attend, including many who have made long journeys to be here.

The large attendance at our annual meetings in recent years is evidence of the increased interest of stockholders in the affairs of our company. This has been a source of great satisfaction to the members of the board and the officers who have the responsibility of guiding the long-range policies and conducting the day-to-day operations of the company.

Many of you were here two years ago when a new record of attendance was established. I know I do not have to tell you how much we appreciated your interest and warm support on that occasion.

In accordance with the decision made here in 1961, amending the by-laws to permit holding the annual meeting outside of

Texas, we met last year at our Lee Creek Mine in North Carolina. Again the decision seemed well justified by the interest of stockholders in seeing one of our newest and largest diversification projects, the phosphate mine and fertilizer materials complex, representing an investment of more than $80 million. Despite a rainy day, another attendance record of nearly 300 was set. There were stockholders present from Canada, the District of Columbia, and 25 States, including Texas. We hope to have similar meetings at or near other company operations in the future. But, of course, we will also plan to be back again in Houston.

You have all received the 1966 annual report in which we have attempted to report as fully as possible on all of our operations and important developments during the year. We will welcome your comments or any questions you may have during the discussion period, and I will therefore confine these remarks to progress and developments since the annual report was prepared.

Before presenting the financial results of the first quarter of 1967, I would like to make this comment. We have had marked improvement in the first quarter over the first quarter a year ago and the outlook for the year as a whole is excellent. However, it should be noted that revenues and earnings for a single quarter at this turning point in the company's rapidly developing diversification program do not fully reflect the rate of progress in production and shipments. For example, before contributing their full potential to sales

volume, it is necessary to build up an inventory of such new products as our phosphate fertilizer materials, and copper, zinc and lead concentrates. We have had substantial production of copper and zinc concentrates. We have been accumulating inventories of zinc concentrates because shipments to overseas markets are limited by winter weather. The first major shipment to Europe was made earlier this month. In the case of copper, we sell it as metal, rather than concentrates, and therefore it appears as sales only after refining, which is some three months after the production of the concentrates.

We are pleased to report to you that the net income for the first three months of this year was $10,129,735, an increase of 51 per cent over net earnings of $6, 716,021 for the first quarter of 1966. Per-share earnings increased from 67 cents in the first quarter of 1966 to $1.01 this year.

Sales for the first quarter of 1967 were $43,634,254, a 50 per cent increase over sales of $29,108,589 in 1966. Total revenues for the first Quarter were $44,830,510, compared with $29,925,132 in 1966.

Every indication is that all of our operations will contribute to further improvement in both sales and cash receipts for the balance of the year.

As planned, capital expenditures have continued to taper off during the first quarter with the completion of the original plant complexes at Timmins, Ontario, and North Carolina. Total capital expenditures amounted to $8.8 million in the first quarter,

compared to over $26 million during the fourth quarter last year. We now see a short financial digestive period before proceeding full scale with other major projects. As evidence of this, the last outside financing to complete this phase of your company's growth resulted in borrowings of $3 million in January and $1 million in February. We have been able to repay $2 million in April and expect a continued net positive cash flow after capital expenditures for the remainder of the year. This will further enhance our strong financial position and enable us to proceed with the other projects discussed here today and in the annual report.

Working capital increased more than $7.7 million to $41.2 million during the first quarter. Product inventories were up $5.9 million. The increase represented the accumulation of pipe-line inventories of metals, metal concentrates and phosphate fertilizer materials.

We expect to have a high level of sulphur shipments throughout the year. Since the annual report, there has been continued improvement in the domestic price for sulphur. The net realization from the most recent price increase of $4 per long ton which we announced March 27 will be reflected in succeeding quarters.

As we have said many times before, it is hoped that improved sulphur prices will stimulate the development of new sources and increased production which are necessary to meet the growing demands for sulphur worldwide. Consumption of

sulphur has exceeded production for more than four years. In 1966 Free World consumption of sulphur totalled 25 million long tons, exceeding production by 930,000 tons.

We have made further progress in our own company's efforts to increase the production of sulphur. Since the annual report, our negotiations to reactivate a company eligible to seek rights to explore for and mine sulphur in Mexico have been successful. The company, formerly a wholly owned subsidiary of Texas Gulf, is now owned 33 per cent by citizens of Mexico, 33 per cent by the Mexican government and 34 per cent by Texas Gulf. Resumption of production at the plant at Nopalapa on the Isthmus of Tehuantepec has been authorized and we expect production to begin within six months. Also, an inventory of more than 300,000 long tons of sulphur will be transferred to Texas Gulf in satisfaction of advances made by TGS to the Mexican company during the earlier operation.

Our previously announced plans for another Gulf Coast Frasch sulphur mine in Louisiana will add production facilities with an annual capacity of more than 300,000 long tons, but the earliest that production can be expected is in mid-1968. This is the Bullycamp Dome, 40 miles wouthwest of New Orleans. We also have a program which will increase our Frasch sulphur production in Texas. In Alberta, Canada, we also plan to increase productive capacity of sulphur recovered from sour natural gas by 180,000 long tons a year.

Also in Louisiana, gas sales are now being made from the North Jeanerette field, St. Mary Parish. Initial deliveries began January 18 of this year. Current production is at the rate of more than two billion cubic feet a year.

Production at our Kidd Creek Mine near Timmins, Ontario, Canada, proceeded on schedule during the first quarter, and all three units of the ore concentrator at Hoyle are now in operation. It is still too early to report complete production figures for all types of ore since only the first of the three 3,000-ton-per-day ore concentrator units was in operation throughout the first quarter. However, initial performance has been highly satisfactory.

The second circuit, designed to process either zinc-copper ore or zinc-lead-silver ore, was started in mid-January. To date, both of the first two circuits have been processing zinc-copper ore. The third circuit processing zinc-lead-silver ore was started in mid-February, but was brought up to full production only near the end of the quarter.

From start-up of the Hoyle concentrator through March 31, we have processed 673,000 tons of ore which produced 80,000 tons of 52 per cent zinc concentrates, 53,000 tons of 25 per cent copper concentrates, 3,600 tons of lead concentrates, and about 1.3 million ounces of silver. Because all three circuits have been in operation such a short time, I want to emphasize again that these production figures are not representative of our planned production on an annual basis. However, we are

pleased with the initial efficiencies of this operation and expect even better performance in the future. We are not as yet recovering pyrites, a source of sulphur, but plan to do so in the near future.

Our Phosphate Division has been doing an outstanding job of overcoming the many problems associated with the start-up of so complex an operation. Since the Lee Creek operation involves the close integration of production by six different plants, minor start-up difficulties in any one of them has an impact on the over-all operation. Full-scale production of all fertilizer materials has not yet been achieved. However, we hope to reach full design capacity of all the plants within a short period of time. We are particularly pleased with the high quality of the products being produced--especially the phosphoric acid. The demand is so great that we are already planning expansion of our phosphoric and superphosphoric acid facilities. This will involve an expenditure of several million dollars, most of which will be spent next year.

In our Potash Division construction of a crystallizer at the Cane Creek Mine is now under way. When completed early in 1968, the crystallizer will produce a superior product and increase the over-all recovery. Its rated capacity is 175,000 tons of muriate per year. Our ore production has been increased greatly, averaging over 4,000 tons per day in February and March and 4,500 tons per day this month. We are next going to concentrate on improving the grade of the ore through more selective

mining techniques, and additional steps are being taken to increase recovery in the mill. The mill is capable of processing 6,000 tons per day and this is our next production goal.

Construction of a second mine shaft at Cane Creek will be started soon. This will be a steel cased drilled shaft with an inside diameter of 4 feet. It will be equipped for the auxiliary hoisting of men and supplies. It is scheduled to be completed late this year.

The next stage in the development of our trona project in the Green River area of southwestern Wyoming is the sinking of a 16-foot diameter mine shaft to a depth of 1,300 feet which will be started shortly. This shaft will enable us to open up the ore body. Initially, ore will be mined in quantities sufficient to conduct pilot processing of the ore which will give us better information for the final design of surface facilities necessary to convert the trona into soda ash. Soda ash is a basic raw material of the glass, chemical and other industries.

Exploration is the life-blood of our future and we are spending an important part of our income in the search for new sources of sulphur, phosphate, potash, oil and gas, sulphides of iron, zinc, lead, copper and other minerals. We are most active in the United States, Canada and Mexico, and are beginning a major program in Australia.

The new and continuing projects I have mentioned are included in the $38 million of capital expenditures we have budgeted for this year. While this is substantially less than the $140 million spent in 1966 during the peak requirements of our Lee Creek and Kidd Creek Mine developments, it still repre-

sents a major continuing investment in the company's future.

This bears directly upon a question I know many of you have in mind from the written comments we have received: what are the possibilities for an increase in dividends in the near future? We are now well into the diversification program which resulted in the board's decision in 1962 to reduce the dividend and invest a greater portion of earnings in future growth. Although $24 millions of the $28 million earned in 1966 was retained by the company, it was necessary to use more than $91 million in borrowings for our major capital programs. We, of course, look forward to the day when all of these projects will be contributing to increased earnings. The board of directors is keeping a close watch on our progress and periodically reviews matters pertaining to the dividend. You can be sure that the board will use its best judgment in deciding if and when the dividend should be increased.

Since the annual report, hearings have been held in the United States Circuit Court of Appeals for the Second Circuit on the appeals from the decision rendered last summer by Judge Dudley B. Bonsal in Federal Court for the Southern District of New York. As you know, Judge Bonsal dismissed charges in the civil suit brought against the company and 11 individuals by the Securities and Exchange Commission, and the S. E. C. appealed this decision. Also appealed was the Court's decision that purchases of TGS stock by two other individuals violated a rule of the S. E. C. We are now awaiting the opinion of the Court of Appeals.

In Canada, hearings are still continuing with periodic recesses before Chief Justice George A. Gale in the Supreme Court of Ontario, Canada, in a suit brought against the company by Leitch Gold Mines, Ltd. and Mastodon-Highland Bell Mines, Ltd. The plaintiffs have completed their case and we are now presenting ours. No date has been established for completion of the trial. In the opinion of counsel for the company, we should be successful in our defense of this litigation.

Before concluding, let me thank you again for your participation in this meeting and for your continued interest and support throughout the year. We are grateful for this, for the continuing loyalty and hard work of our employees in all of our operations, and for the success of our diversification projects which are now about to bear fruit.

And now I will be pleased, to try to answer any questions you may have.

* * *

April 27, 1967

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For background reference only

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LEITCH v. TEXAS GULF SULPHUR

The trial of the action brought by Leitch Gold Mines Limited and Mastodon-Highland Bell Mines Limited against Texas Gulf Sulphur Company Inc., in the Supreme Court of Ontario, is proceeding before Mr. G.A. Gale, Chief Justice of Ontario, in Toronto's new Court House. The claim is probably the largest ever filed in a Canadian court.

Appearing for Leitch are J.J. Robinette, Q.C., S.H. Robinson, Q.C. and J.F. Logan. The Texas Gulf legal team consists of J.D. Arnup, Q.C., W.M. Bryden, Q.C. and with them G.D. Lane, D.E. Wakefield and A.D.C. Purdy.

The trial of this complex action began on October 31, 1966. It was preceded by lengthy examinations for discovery when two principal figures in the controversy, C.W. Pegg, Leitch's chief geologist, and Dr. Walter Holyk of Texas Gulf were extensively questioned by counsel. Mr. Pegg was examined regarding the negotiations with Texas Gulf which lead up to the agreement of February 1, 1963 between Leitch and Texas Gulf. Leitch's claims are laid under the terms of this agreement and follow much-reported Texas Gulf discovery north of Timmins.

The Leitch Case

Stated briefly, the case for Leitch Gold Mines Limited is that Texas Gulf breached its agreement and as a result Leitch claims:

(a) A declaration that Texas Gulf holds as trustee for Leitch, under the terms of the agreement, any and all lands, mining claims, mining rights and interests and rights pertaining to and during the currency of the agreement acquired by or on behalf of Texas Gulf in any lands in the surveyed area (3) (Prosser-Geary), lying under or covered by the aerial geophysical survey (3) (Prosser-Geary), as shown on the mosaic attached to and forming part of the Leitch statement of claim; and for an order directing Texas Gulf to execute and deliver to Leitch good and sufficient conveyances, transfers and assignments of all the said lands, mining claims and mining rights and interests therein and rights thereto held by Texas Gulf in the surveyed area (3) (Prosser-Geary) and covered by the aerial geophysical survey (3) (Prosser-Geary).

(b) Rectification of the agreement, by incorporating in it by reference map or maps showing outlined in red all the areas covered by the aerial geophysical surveys referred to in the agreement, with any and all geophysical anomalies detected by the aerial geophysical surveys indicated on it.

(c) As an alternative to the claim in subparagraph (a), damages against Texas Gulf amounting to $400,000,000 for breach of the agreement.

(d) Damages against Texas Gulf in the amount of $50,000,000 for breach of the agreement arising from the loss to Leitch of the advantages and opportunities to acquire valuable lands, mining claims and mining rights and interests therein and rights thereto.

(e) An order directing that all proper directions may be given, accounts taken and enquiries made of all lands, mining claims and mining rights and interests therein and rights thereto acquired by or on behalf of Texas Gulf in the surveyed area (3) (Prosser-Geary) and covered by the aerial geophysical survey (3) (Prosser-Geary).

(f) An injunction restraining Texas Gulf from committing further breaches of the agreement.

(g) Their costs in this action.

(h) Such further and other relief as the court may deem just.

Company backgrounds

Leitch Gold Mines Limited chairman, Karl Springer, and the company's president, Frederick E. Hall, are both widely known in the Canadian mining community.

The chief executives of Texas Gulf Sulphur Company Inc., whose head office is in New York City, are C.O. Stephens, president, and C.F. Fogarty, executive vice-president. Texas Gulf's entry into the exploration field in Canada is of comparative recent date, its main interest being centred previously on sulphur deposits in the United States.

Leitch--now engaged in exploration in different parts of Canada--was at one time a gold producer whose property in the Beardmore area of northern Ontario had yielded gold valued at $30.5 million by the time operations at the mine discontinued in June, 1965. Mastodon-Highland Bell Mines Limited, wholly-owned subsidiary of Highland Bell Limited, is one of Canada-s major silver producers. Mr. Springer is president of Highland Bell.

Trial in Progress

During the first two days of the trial a witness for Leitch, Dr. H.O. Seigel, president of H.O. Seigel & Associates Limited, consulting geophysicists of Toronto, provided a detailed description and demonstration of electro-magnetic methods of aerial exploration, and of instruments and procedures involved in other types of geophysical surveys. C.W. Pegg, Leitch's geologist who negotiated the Leitch/Texas Gulf agreement, was on the stand for fourteen days--under examination and re-examination by Mr. Robinette and cross-examined by Mr. Arnup.

A large volume of maps, fine distinctions between thick lines and thin lines, colour washes, circles and diagonals, ruled areas and dotted ones, large scale sheets and ordnance maps, aerial photographs, data recorded by the instruments of exploration, records of ground reconnaissance. All are being submitted in evidence.

It was to examination of much of this evidence that Leitch called as witnesses a number of employees of Lockwood Survey Corporation--a company which prepared many of the maps and mosaics pertinent to the case. These witnesses included: Jack R. Comley, supervisor of the planimetric and mosaic section; Hugh R. Hutchings, production controller; F.G. Courage supervisor of the airborne geophysical section; E. Vesk, photographic section supervisor.

Also called to testify were employees of Leitch Gold Mines: Floyd W. Hussey, a geophysical technician; D.R. McEwen, secretary-treasurer of Leitch; and Gerald W. Grant, formerly an employee of Leitch and now with Conwest Exploration.

Others called by the plaintiffs were as expert witnesses who were, among other matters, examined on aspects relating to location and detail maps, forms of exploration agreements and practices of exploration parties. These included: Marsh A. Cooper, a partner in the Toronto-based firm of consulting geologists, James, Buffam & Cooper; Dr. W.F. James, also a partner in James, Buffam & Cooper; Dr. E.B. Gillanders, a Vancouver consultant in geology and mining who was formerly a senior vice-president with the Rio Tinto group in Canada; John D. Barrington, president and managing director of McIntyre Porcupine Mines Limited. Dr. Seigel was also recalled as a witness for Leitch at one point.

Over a period of several days, Mr. Robinette read into the trial record testimony from the lengthy examination for discovery which was conducted prior to the trial opening. This largely involved questions, put by Mr. Robinette, and answers, given by Dr. Walter Holyk of Texas Gulf Sulphur, at the examination for discovery.

On January 19, Leitch secretary-treasurer D.R. McEwen was the final witness for the plantiffs, although the court granted Mr. Robinette permission to, at some later point, call an expert witness presently out of the country.

First witness for the defence, H.V.W. Donohoo, general manager, potash division, Texas Gulf Sulphur, was then called by Mr. Arnup.

Trial in Progress (continued)

Mr. Donohoo's testimony was interrupted to allow an expert witness for Texas Gulf Sulphur to take the stand. He was Prof. A.H. Robinson of the University of Wisconsin who was on the stand for five days. Mr. Donohoo resumed his testimony February 3 and, following cross-examination by Mr. Robinette and re-examination by Mr. Arnup, stepped down on March 13. He had been on the stand 13 days.

J.W.L. Monaghan, a partner in the consulting engineering firm of Marshall, Macklin, Monaghan Limited, was the next witness for Texas Gulf. His firm had performed services for Texas Gulf on the surveyed areas. He was succeeded by the defense's second expert witness, J.E. Ross who was formerly the Dominion Geodesist. The same day (March 15) Mr. Arnup called S.G. Zabek, head of the computer section for Marshall, Macklin, Monaghan, to testify. His re-examination concluded April 3 when Dr. Leo J. Miller was called.

Dr. Miller, now manager of Australian operations for Texas Gulf, was a senior field man for Texas Gulf at the time of the company's mapping and surveying efforts in the Timmins area. His work covered a number of surveyed areas and in many instances centred around the establishment of detailed geological data for maps. His examination continued to April 21 when Mr. Robinette began cross-examination.

With interruptions when the court was not in session, Dr. Miller continued on the stand to May 11. Next witness called by Mr. Arnup was R.H.W. Clayton, a mining engineer and geophysicist who is supervisor of special projects for Texas Gulf Sulphur.

Mr. Clayton supervised much of the survey flying of the areas held by Texas Gulf. His examination, then cross-examination by Mr. Robinette, extended to June 28 when Mr. Arnup began re-examination. The following day, June 29, the court rose for the summer recess.

Re-examination of Mr. Clayton continued on September 11, the day the trial resumed following summer recess. Two days later Mr. Robinette rose to re-cross-examine the witness, since some new evidence was entered by Texas Gulf during Mr. Arnup's re-examination.

On September 13, Texas Gulf called another expert witness--Mr. Ordway Hilton of New York City who is an examiner of questioned documents. His examination centred largely on a claims map of Kidd Township. Cross-examination and re-examination of Mr. Hilton was concluded the following day. Virginia Green, a legal secretary with the New York law firm of White & Cass, was sworn, and identified a number of documents.

The same day--September 14--Richard Mollison, a mining engineer, was called to the stand by Mr. Arnup. He is Texas Gulf's vice-president in

Trial in Progress (continued)

charge of the metals division and the senior officer in Canada. Mr. Mollison's testimony covered a wide range of topics relating to the organization, execution and completion of Texas Gulf's exploration programs in the Timmins area generally and on the Kidd Township property specifically. Cross-examination by Mr. Robinette began on September 18 and continued through to September 20--the 100th day of the trial.

Mr. Arnup's re-examination of Mr. Mollison was concluded the next day and Dr. John F. Macdougall, a geologist employed by Texas Gulf Sulphur, was called.

Dr. Macdougall, who was senior geologist at the Calgary office of Texas Gulf Sulphur, testified at length on the transfer of data and documents to Leitch by Texas Gulf Sulphur. His examination, cross-examination and re-examination continued through to October 12, (following a two-week recess from September 22 to October 10).

R.D. Mollison was recalled to the stand to clarify a few points; his second appearance was brief. B.R. O'Toole, formerly in charge of a Texas Gulf geophysical laboratory, gave testimony dealing largely with his responsibilities in respect of the Timmins area survey. Following his cross-examination and re-examination, George Podolsky was called as the next Texas Gulf witness. Mr. Podolsky, a senior geophysicist for Texas Gulf, was extensively involved in the Timmins area program. He was sworn in on Monday, October 16, and his examination by Mr. Arnup continued through the week.

October 20, 1967.

TGS Texas Gulf Sulphur Company 1967 Annual Report

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About the cover Exploration is the life blood of a company in the natural resources field. The cover of the 1967 annual report portrays typical scenes in the continuing search for raw materials in many parts of the world.

Comparative Financial Highlights

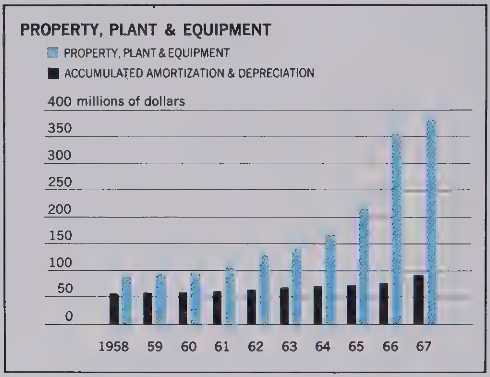
	1967	1966	1965
Gross sales	$253,098,544	$132,718,172	$ 98,981,161
Net income	$ 62,101,721	$ 28,095,817	$ 18,160,941
Net income per share	$ 6.15	$ 2.80	$ 1.81
Cash earnings per share	$ 9.24	$ 4.32	$ 2.76
Cash dividends per share	$ .40	$ .40	$ .40
Working capital	$ 69,712,044	$ 33,528,733	$ 52,457,583
Ratio of current assets to current liabilities	4.0 to 1	2.4 to 1	5.4 to 1
Property, plant and equipment (net)	$288,685,344	$275,384,177	$145,407,082
Total assets	$412,578,100	$363,037,949	$240,883,596
Non-current notes payable	$115,000,000	$135,000,000	$ 55,000,000
Stockholders' equity	$235,521,567	$176,412,881	$151,987,134
Number of stockholders	48,529	49,553	47,911
Number of shares outstanding	10,091,504	10,048,319	10,034,119

Executive Offices
200 Park Avenue
New York, New York 10017

Registrar
The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Transfer Agent
Bankers Trust Company
16 Wall Street
New York, New York 10015

Annual Meeting
The Annual Meeting of Stockholders will be held in the Houston Club building, Houston, Texas on Thursday, April 25, 1968. Notice of Meeting, Proxy Statement and Proxy will be sent to all Stockholders on or about March 25, 1968



To Our Stockholders

It is a pleasure to report that sales and earnings in 1967 were the highest in the company's history by a wide margin, reflecting continuing strong demand for sulphur and the rapid development of our diversification programs into other natural resources.

Sales revenues of $253,098,544 in 1967 represented an increase of 91 per cent over 1966. Earnings increased 121 per cent and amounted to $6.15 per share in 1967 compared with $2.80 in 1966.

While sulphur sales and earnings increased substantially and continued to be the mainstay of our business, the greatest increase was from metals.

Progress was made during 1967 towards further increases in the production of the company's major products. There are many opportunities for improved performance and the sales and earnings outlook is for a still better year in 1968.

Exploration

As indicated by the cover theme of this annual report, the company continues to emphasize exploration to develop additional resources for future growth and diversification. New projects were undertaken during 1967 in various parts of the United States, in Canada, in Mexico, in Australia and elsewhere. In 1968 we will continue our exploration for new sources of basic raw materials in these and other parts of the world. Our exploration budget is being increased and we are adding to the highly competent exploration staff which has in the past added so substantially to the company's position as a producer of essential natural resources.

Sulphur

Free World consumption of sulphur exceeded production for the fifth successive year as sulphur used reached a new record high of 26 million long tons. Industry-wide efforts to increase production were not adequate to meet the growing demand, and inventories of elemental sulphur have been reduced from a level of 43 weeks of supply in 1962 to about 15 weeks' supply. Following a 15 per cent increase in 1966, Texas Gulf's production made a further modest gain in 1967. Work progressed rapidly on several fronts to increase future production in the United States at Bully Camp, Louisiana, in Canada at Whitecourt, Alberta, and in Mexico at Nopalapa and Texistepec.

Despite increases in 1967, domestic and Canadian prices for sulphur are still below those charged in world markets. Only higher prices will stimulate the investment necessary to find and develop additional higher-cost sources of sulphur which will be required to meet the projected growth in world-wide demand.

Metals

The Kidd Creek Mine and concentrator near Timmins, Ontario, Canada operated by our wholly owned subsidiary, Ecstall Mining Limited, mined and milled more than its design capacity of 3,000,000 tons of ore during its first nearly full year of operations, even though the second and third of the three circuits in the mill did not start up until mid-January and mid-February.

The highly efficient initial performance of the operation reflected sound engineering design based on valuable experience gained during pilot plant testing the preceding year. Metallurgical recoveries were excellent and should be better in 1968. In 1967, this operation made a substantial contribution to the company's increased sales and earnings.

Claude O. Stephens, President

Phosphate

The Phosphate Division also made good progress during the year towards coordinating the production of the Lee Creek, North Carolina mine and a plant complex which includes six different operations. Each of these demonstrated its ability to operate at design capacity or better by late 1967. Lee Creek's production added significantly to total company sales in 1967, and the prospects for improved performance in 1968 are favorable. Longterm growth in production of phosphoric and superphosphoric acids, diammonium phosphate, and triple superphosphates is essential to meet the world's needs for increasing food production. Plans are being made to substantially expand Lee Creek's production facilities for both phosphoric acid and superphosphoric acid and construction may start in 1968.

Potash

The Potash Division's Cane Creek Mine near Moab, Utah mined and milled an average of 4,350 tons of ore per day in 1967, exceeding the initial goal of 4,000 tons per day. Production increased steadily during the year and reached an average of nearly 5,000 tons per day during the last several months. Production costs were substantially reduced. While these improvements in performance are gratifying, potash prices are severely depressed as the result of very large increases in Canadian production which have created a serious oversupply, despite continuing increases in potash consumption.

Trona

Work began in December on the 16-foot diameter mine shaft at the trona deposit near Black's Fork River in southwestern Wyoming. It is scheduled to reach a depth of 1450 feet early in 1969.

Armstrong Forest Division

Armstrong Forest Company, acquired from Curtis Publishing Company in 1966, is now a Division of Texas Gulf Sulphur Company. The same expert personnel continue to manage the Division's 140,000 acres of Pennsylvania woodland. In addition to valuable timberland, there is some gas and oil production on the property.

Financial

As pointed out in the financial review, 1967 results significantly improved the company's already strong financial position and the ability to carry forward with future plans and new opportunities which may develop for further growth and diversification.

Litigation

After trial of a civil action brought by the Securities and Exchange Commission, charges against the company and eleven individual defendants were dismissed in 1966. The Federal District Court found that two individuals had purchased TGS stock in violation of an SEC rule. On March 20, 1967, the U.S. Court of Appeals for the Second Circuit heard arguments in the appeal of the SEC and in the appeal of the two individuals. As of this date no decision has been rendered.

In December, 1967, counsel for both sides concluded the presentation of evidence in the suit brought against the company by Leitch Gold Mines, Ltd. and Mastodon-Highland Bell Mines, Ltd. in the Supreme Court of Ontario, Canada. On February 13, Chief Justice of Ontario George A. Gale began hearing closing arguments which are expected to continue for several months. In the opinion of counsel, the company should be successful in its defense.

Stock Split Proposed

On December 7 the Board of Directors approved a proposal for a 3-for-1 split of the company's common stock which will be submitted for approval of the stockholders at the annual meeting on April 25. The board also declared its intention, assuming favorable economic conditions, to continue quarterly dividends at the rate of 10¢ per share on the new shares. This would be equivalent to an annual rate of $1.20 on the present shares, compared to 40¢ per share in 1967.

Directors

George S. Eccles, director, president and general manager of First Security Corporation, Salt Lake City, Utah, and John M. Meyer, Jr., president of the Morgan Guaranty Trust Company of New York, were elected to the Board of Directors at the annual meeting on April 27, 1967. The company suffered a great loss on April 10, in the death of Thomas S. Lamont, who had served the board with distinction since 1927. Dr. John F. Thompson, who had given outstanding guidance to the board since 1944, retired in April, 1967.

Corporate Organization

H. V. W. Donohoo, general manager of the Potash Division; James W. Estep, general manager of the Gas Division, and Dr. Walter Holyk, general manager of Exploration, were elected vice presidents on October 5, 1967.

Robert M. Stoy was appointed manager of Texas Gulf's Mexican office for liaison with C.E.D.I. He was succeeded as Assistant General Manager of the Frasch Sulphur Division, East Mines, Beaumont, Texas, by Charles F. Drees, formerly Manager of the Electrical Department of the Frasch Sulphur Division. David C. Edmiston, Jr., formerly Mill Superintendent at the Lee Creek Mine, became Assistant General Manager of the Phosphate Division.

Employee Relations

All divisions continued to enjoy excellent employee relations in 1967, and all employees are to be congratulated for their loyalty and efforts which made possible the new records achieved during the year. During 1967 Texas Gulf announced that all employees were to be placed on a salaried basis. This means that there are no longer any hourly rated personnel among the company's 3100 employees.

On behalf of the Board of Directors, may I again express our appreciation to the stockholders for their interest and support throughout the year.

Respectfully submitted,

Claude O. Stephens

February 23, 1968

Exploration: Key to future growth

The workhorse whirlybird is indispensable to exploration in remote areas in a variety of ways. Here a member of the TGS exploration team hooks up a barrel of fuel oil for transportation by helicopter to a drilling site in British Columbia.

Texas Gulf's exploration for basic raw materials continued on many fronts during 1967. The Exploration Division, with headquarters in Toronto, Canada, had men in the field in various parts of Canada, the United States, Mexico and Chile, and projects under study in other parts of the world.

Texas Gulf and Ecstall have recently been granted exploration licenses covering 122,500 acres under the North Channel of Lake Huron, north of Manitoulin Island, Ontario. With the exception of some islands, the area is covered by water, but during winter months ice will support the rigs necessary to drill for uranium and other minerals and drilling is now under way.

Other areas of exploration in Canada include projects in the provinces of Alberta, British Columbia, Ontario and Quebec.

In December, Texas Gulf was the successful bidder on five tracts put up for sulphur leasing on University of Texas lands in Pecos County, West Texas.

In 1968, drilling will start on two properties near the west coast of Mexico. These are at Murga and LaDicha in the state of Guerrero. Murga is a copper-silver-pyrite prospect, and LaDicha is a copper-zinc-silver-pyrite prospect. Previous drilling at both locations had developed modest reserves, but more and deeper drilling is needed to evaluate their commercial potential.

Texas Gulf, in association with others, has submitted joint proposals to the Government of Iraq for rights to explore for and develop sulphur. The company has been interested for many years in the potential contribution this region could make to world sulphur supplies.

Instead of a helicopter, a different type of transportation is used by an exploration field party in this mountainous region in Mexico.

Exploration for sour natural gas (which contains sulphur) and other hydrocarbons continues in Western Canada.

The accompanying photographs of typical exploration activities indicate the broad range of climatic and geological conditions encountered in different parts of the world.

Australian Inland Exploration Company Granted Concession in Western Australia

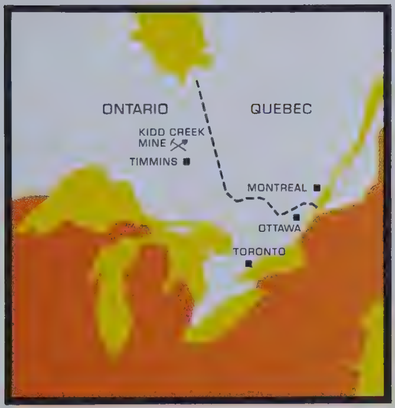
Areas of geological interest in Australia are also being explored by a wholly owned subsidiary, Australian Inland Exploration Company with headquarters in Perth.

A concession to prospect for nickel, copper, silver, lead, zinc and sulphur in an area of 540 square miles of Crown Land has been granted to the company by the Government of Western Australia. Applications are in process for concessions on several other areas of interest for exploration.

A geophysicist at work with an electro-magnetic measuring instrument, testing geophysical techniques best suited to areas under exploration in Western Australia.

Metals: Kidd Creek Mine's successful start-up

At the Kidd Creek mine, ore is extracted by the open pit method. Mining begins with drilling and blasting which follow a carefully developed plan for selectively extracting the different types of ore, predominantly zinc-copper and zinc-lead-silver.



During 1967 Texas Gulf Sulphur's wholly owned subsidiary, Ecstall Mining Limited, mined and milled 3,039,000 tons of ore at the new Kidd Creek Mine and concentrator near Timmins, Ontario, Canada. This was 39,000 above the design capacity, even though only one of three mill circuits was in operation on January 1. The second and third circuits came on stream in mid-January and mid-February, and Ecstall's Canadian management and production team earned high praise for the successful start-up of a complex operation.

Production in 1967 included approximately:

432,000 tons of 52 per cent zinc concentrates

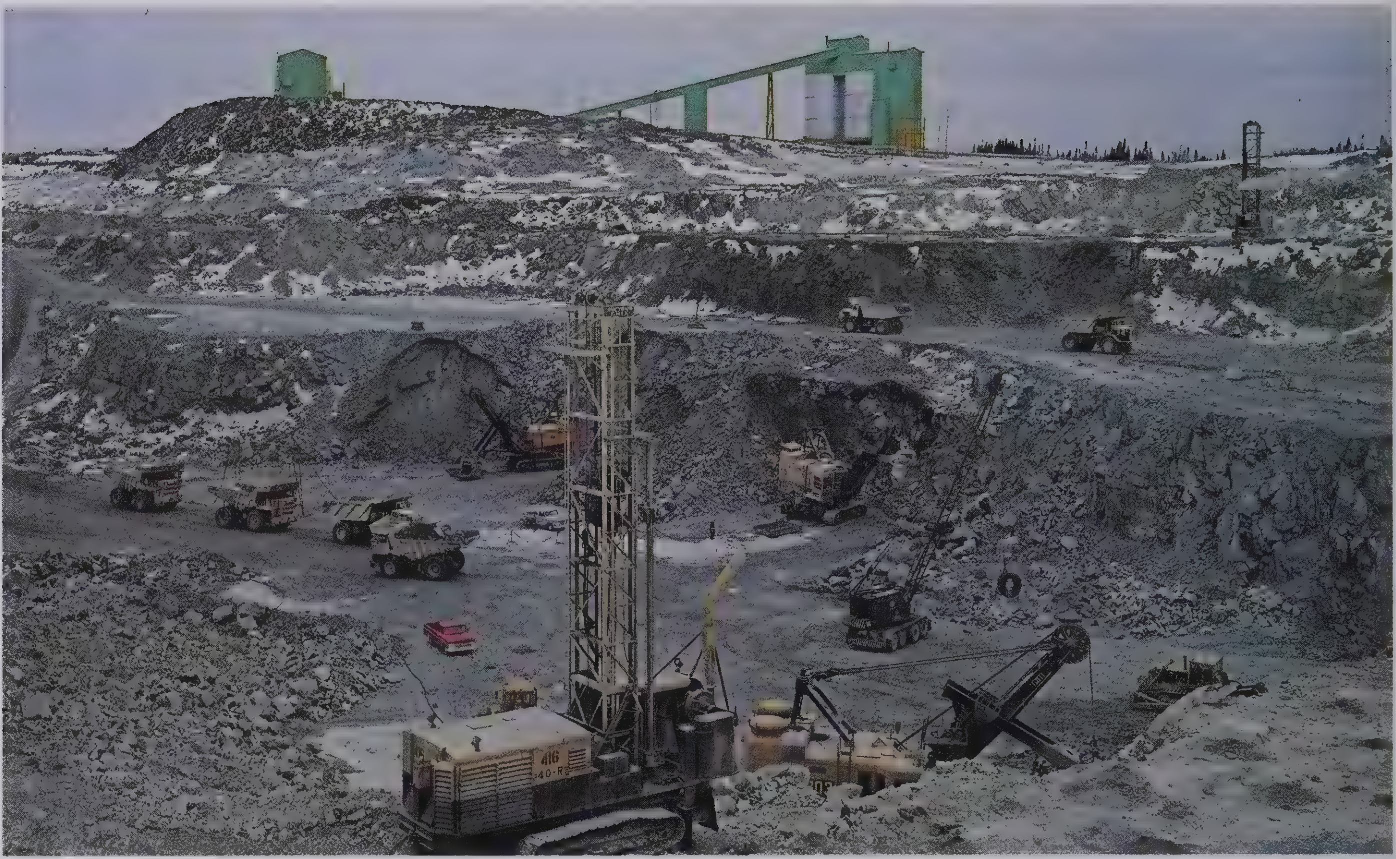
205,000 tons of 25 per cent copper concentrates

43,000 tons of copper-lead concentrates

7,800,000 ounces of silver in the above concentrates

From the beginning of operations, metal recoveries were good. During the year, they averaged about 91 per cent on copper, 82 per cent on zinc, and 72 per cent on silver, and in the last two months of 1967, they reached about 95 per cent on copper, 85 per cent on zinc and 75 per cent on silver. Further improvement in the recoveries is expected in 1968.

The importance of close coordination of the entire Kidd Creek operation may be seen from the accompanying picture story showing the flow of ore from the mine through the concentrator to the final shipment of concentrates from the mill.



Open pit mining at Kidd Creek creates a continuing spiral of terraces, known as benches, each about 40 feet deep. By the end of 1967 mining was in progress on three levels and a start had been made on the fourth. After blasting, ore is hauled to the primary crusher on the rim of the mine. The crusher, as seen in the background of the picture above, is connected by conveyors to two 6,000-ton loading bins, one holding zinc-copper ore and the other zinc-lead-silver ore. Each type of ore is handled separately from the mine through the mill. This separation, even at the stage of programming drilling, is essential to optimum recoveries from the complex ore.

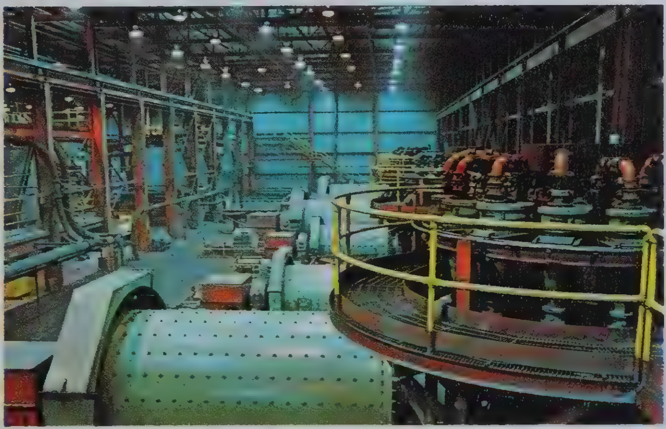
Six power shovels keep a fleet of eighteen 50-ton trucks busy shuttling ore and waste material from the open pit to the primary crusher or to the waste dump areas.

Truck empties ore into the crusher where it is broken into a maximum size of six inches, then carried by conveyor to the loading bins.

From the loading bins at the mine site, ore is hauled over a 17.5-mile rail line to the Kidd Creek concentrator which is adjacent to the main line of the Ontario Northland R.R.

At the concentrator, ore is unloaded into a 2500-ton dumping pocket, from which it is moved by conveyor to second and third stage crushers which reduce it to pieces smaller than ¾ inch.

Nerve center of the concentrator is the control room which is equipped with modern instrumentation for control of mill operations. Continuous metal analysis is provided by X-ray equipment. A computer is coupled to the X-ray, and automatic typewriters provide a steady flow of information to the operators for process control.



Three sets of rod and ball mills grind the ore into a water slurry for physical separation of the minerals and waste components. Reagents are then added to promote flotation.

As the ore slurry moves through the flotation cells first one and then another of the valuable minerals is brought to the surface and passed on to large concentrate thickeners in left foreground. After thickening, the concentrates are filtered and then dried into powder for shipment. The concentrator covers an area the size of six football fields. Space has been provided for the addition of a fourth circuit for the production of pyrite concentrates, a source of sulphur.

A shipment of metal concentrates leaves the Kidd Creek mill. Copper concentrates are shipped for smelting and refining to Noranda and Montreal East, respectively, both in the province of Québec. The resulting copper metal and silver are sold by TGS. Zinc concentrates are sold by TGS to smelters in the United States, Europe and Japan, since there is no available smelting capacity in Canada. Lead concentrates are shipped from Canada for smelting, and a portion of the silver recovered is returned to TGS for sale by the Marketing Division. Construction of TGS' own copper and zinc smelters and refinery facilities in Ontario continues under study.

Copper and Zinc Trends in 1967

While Free World production and consumption of copper and zinc have been increasing over the past several years, trends in supply and demand were distorted in 1967 by protracted strikes in the U. S. copper producing and automobile industries. The long-term growth in demand for both metals continues to be favorable.

Metals Division continues work on other properties

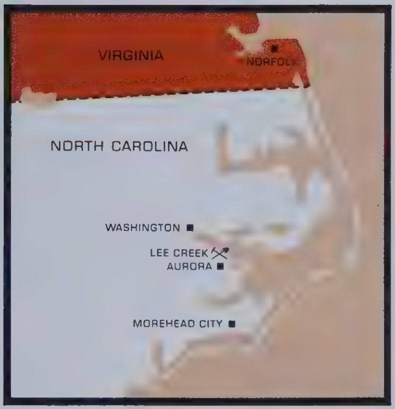
Further work was done by the Metals Division during 1967 under a program of continuing evaluation of several other properties.

Metallurgical testing and other work was done on the Strathcona Sound zinc-lead-pyrite deposit on Baffin Island in the Canadian Arctic. Geophysical and geological work was also done on adjoining areas.

Metallurgical tests were carried out on bulk materials mined from a property on the Ecstall River in British Columbia and on samples from the company's Half Mile Lake property in New Brunswick. Ecstall is a copper-pyrite prospect and Half Mile Lake is a lead-zinc prospect.

Phosphate: Six major operations started in 1967

Lee Creek's phosphate reserves are ample to meet the requirements of increasing demand for many decades, and all installations have been designed to permit a ready increase in production through the construction of parallel facilities.



Following the start-up of fertilizer materials plants at the Lee Creek Mine near Aurora, North Carolina in early 1967, the Phosphate Division concentrated its efforts on increasing the production of materials from the mine through the plant complex to storage and shipping facilities.

Each of six major operations demonstrated by late 1967 that it could produce at or above design capacity. The goal for 1968 is to attain sustained high levels of performance in all of the inter-related operations and to achieve maximum production of all products.

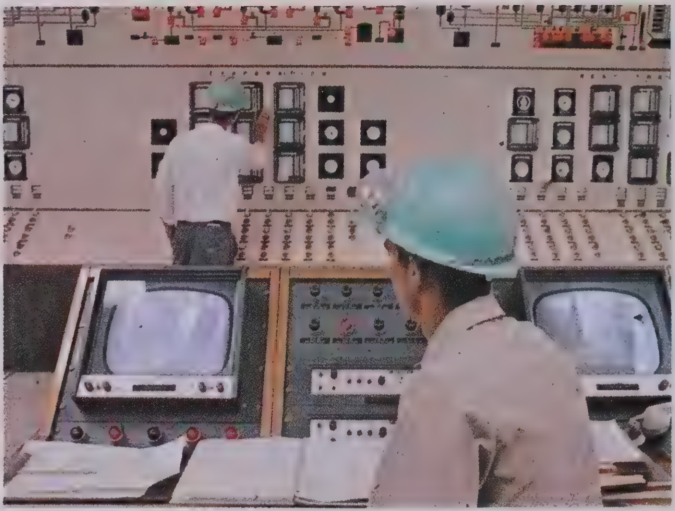
Key to the success of all the other Lee Creek fertilizer materials plants is the phosphoric acid plant which is one of the largest and most modern in the world. In its first year of operation, it experienced some periods of reduced production, but most of the problems were solved during 1967.

Thus, while all of the fertilizer materials plants were not operating at design capacity through the year, production for 1967 included:

100% sulphuric acid	525,750 tons
54% phosphoric acid	325,000 tons
70% superphosphoric acid	48,650 tons
Triple superphosphate	165,600 tons
Diammonium phosphate	110,000 tons

Since mining of phosphate rock began in 1966 and continued in 1967, a substantial inventory is already available to supply the fertilizer materials plants at Lee Creek and for sale to outside markets in various forms.

The dramatic rate of growth for phosphate fertilizer materials which in recent years has averaged 7% per year, was interrupted in 1967 by unfavorable weather conditions, and there was a corresponding weakening in prices for some products. However, even conservative estimates of the long-term growth in fertilizer consumption indicate that world-wide demand for Lee Creek's products will double or triple in the next decade.

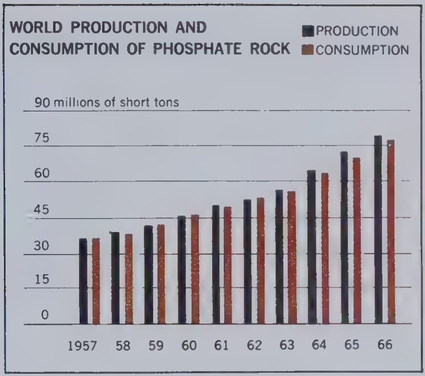


Lee Creek's plants are run from control rooms similar to this one in the phosphoric acid plant. Television monitors are checked by the operator in the foreground, while another operator adjusts flow charts on the instrument panel.

The sulphuric acid plant (top of the above picture) feeds directly into the adjoining phosphoric acid plant. Capacity production yields 1,945 tons of 54 per cent phosphoric acid per day.

Three large warehouses at Lee Creek provide storage to meet the seasonal demands of the fertilizer industry. Rail and barge shipping facilities are seen in the foreground above.

Work on improved shipping facilities at Morehead City's deep-water port was started in the fall of 1967 and is ahead of schedule. The State Ports Authority is investing $11.4 million in this project. Morehead City's installation includes a warehouse of 106,000 tons capacity and especially designed facilities for handling phosphate products.

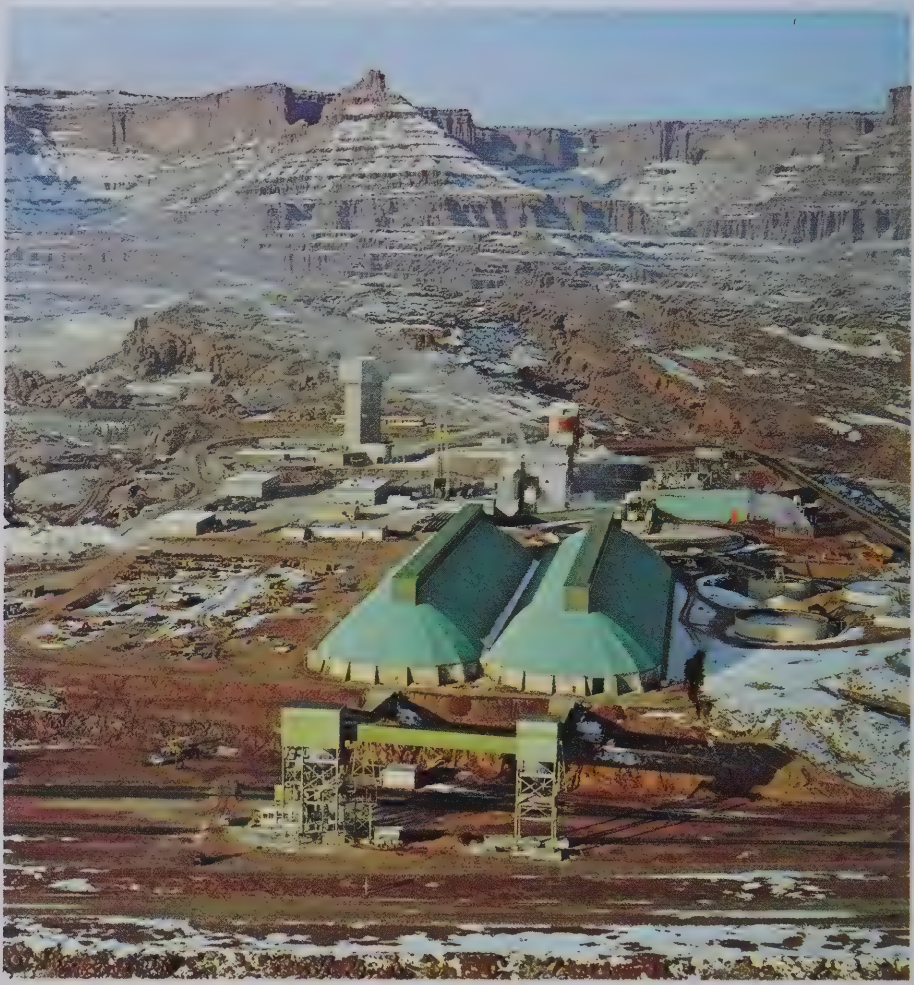


Phosphate rock consumption and production have grown dramatically in recent years. Preliminary estimates indicate that consumption and production increased again in 1967.

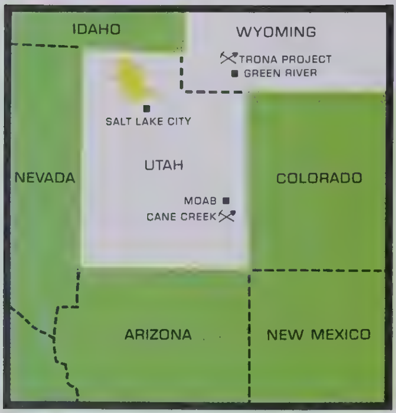
TGS installed industry's most modern devices at Lee Creek to prevent water and air pollution. Shown above are fume scrubbers at the fertilizer plants.

Long before the first draglines were ordered to be built for the Lee Creek mine, Texas Gulf was working with North Carolina State University authorities to draw up plans for best use of the land both before and after mining. Land mined will be reclaimed for raising cattle and growing trees. These operations are already under way on sites designated for future mining.

Potash: Production exceeded planned goal in 1967



Recent aerial view of the Cane Creek Mine on the Colorado River near Moab, Utah. A crystallizer was added to the surface facilities in 1967, and the drilling of a second mine shaft was completed early in 1968.



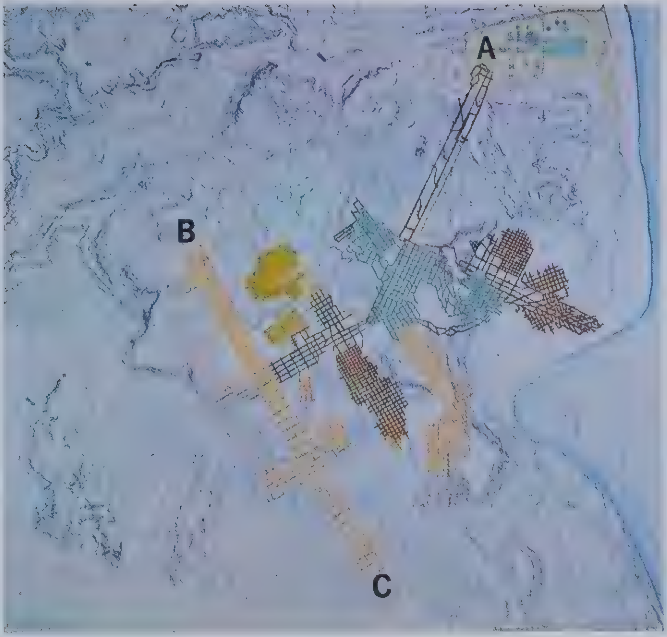
Texas Gulf's Cane Creek Mine near Moab, Utah attained its target goal of production in 1967. Ore hoisted averaged 4,350 tons per day. This mill feed was efficiently processed although it exceeded the plant design capacity of 4,000 tons per day. Plant output closely approached 1,000 tons of muriate of potash per production day. New efficiencies in both mining and milling kept costs well within budgeted performance and the addition of a crystallizer unit should further increase production in 1968.

The market for potash took an unfortunate turn for the worse in 1967. Although world consumption of potash continued to increase at a rate of 6.4 per cent, output of world potash mines increased at a greater rate. All grades of potash were in oversupply, causing a sharp break in prices at mid-year. Potash sales prices have dropped approximately 35 per cent in the last two years, more than offsetting the otherwise successful efforts of this Division to attain a profitable level of operations.

Total world production in 1967 was 16.2 million short tons. United States production totaled 3.3 million short tons, the same as 1966, while Canadian production jumped to 2.5 million short tons, an increase of 22.7 per cent. North American consumption increased 2.3 per cent to 4.1 million short tons.

Although the outlook for an immediate return to balance between supply and demand is not encouraging because of announced new facilities coming into production in Canada, the long-term growth in demand for potash as one of the three vital plant nutrients is as assured as it is for phosphate and sulphur.

The Cane Creek crystallizer unit which began operating in December 1967 will further increase recovery and add to the production of coarse muriate of potash.



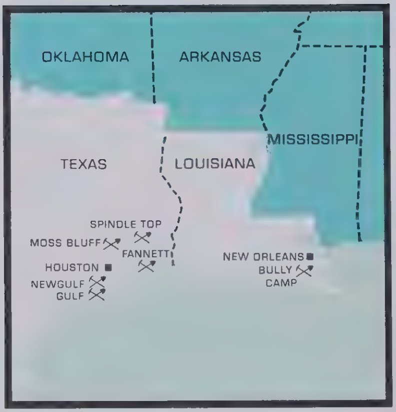
Plan of Cane Creek Mine superimposed on topographic map shows areas mined during 1967 in yellow. The main mine shaft at A is 2,789 feet deep. Distance from B to C is about one mile.

Cane Creek's second mine shaft was drilled with equipment similar to that used in oil well practice, but with a diameter of six feet, a pioneer achievement for private industry. Steel casing with an inside diameter of four feet and weighing 1¾ million pounds was installed throughout the 2,710-foot depth. The new shaft will be fitted with a hoist and other facilities for auxiliary transportation of men and materials.

In the fourth quarter of 1967, work began on sinking a 16-foot diameter shaft to a depth of about 1500 feet in Texas Gulf's trona reserves in southwestern Wyoming. When the shaft is completed in early 1969, mining of ore in quantities sufficient for process testing will begin. Based on these tests, surface processing facilities will be designed for conversion of trona into soda ash, a basic raw material of the glass, chemical and other industries.

Sulphur: Consumption exceeds production for fifth successive year

A new sea-going tanker, the S. S. Marine Floridian, went into service in 1967. It is shown leaving the Beaumont Terminal in Texas with a cargo of 24,000 long tons of liquid sulphur.



Sulphur is a vital mineral used at some stage in the production or processing of nearly every product for modern living. Consumption of sulphur closely parallels the Federal Reserve Board's Index of Industrial Production, and the per capita use of sulphur is a good indicator of the living standards in a given country. Nearly half of all the sulphur consumed is used in the production of fertilizers which are essential to increasing food and fiber supplies for the growing world population.

Free World consumption of sulphur reached a record high of 26 million tons in 1967. It was the fifth successive year in which a new record was established. It was also the fifth consecutive year of a worldwide sulphur shortage which began in mid-1963 and has resulted in a steady withdrawal from inventories which are now at their lowest level in 35 years. Industry experts drew no comfort from the fact that the deficit in 1967 was 500,000 tons, compared to 930,000 tons in 1966.

Consumption in both 1966 and 1967 would have been substantially greater if sulphur had been available in sufficient quantities to meet the demand. The apparent narrowing of the gap between consumption and production was artificial, resulting largely from limitations on supply.

The cumulative deficit between Free World sulphur production and consumption over the past five years now amounts to about 3½ million tons. The difference, of course, has been made up by shipping from inventories. By year's end Free World elemental sulphur inventories had been reduced from 43 weeks' supply in

1962 to about 15 weeks' supply. Programs were introduced in the industry in an attempt to insure fairness to both large and small customers. Domestic producers of sulphur also cooperated with the Department of Commerce in voluntary reductions of their exports.

Sulphur prices in the United States and Canada were increased in 1967, but remained considerably below those charged in world markets. There were two price increases in U. S. markets. On March 27, Texas Gulf announced that the company's price for domestic sales of its Frasch sulphur would become $33.50 per long ton, f.o.b. U. S. Gulf Coast shipping points, and effective October 1, 1967, the price became $39. The price of the company's Canadian sulphur was also increased October 1 from $30 to $36 per long ton, f.o.b. Alberta. U.S. export prices were also increased.

New sources of sulphur needed

Higher prices and continuing tight supplies have resulted in stepped-up efforts to develop new sources of supply. But the additions to production so far in sight fall far short of meeting the projected growth in demand through 1970, and higher prices are still needed to make the development of additional higher-cost sources of sulphur economically feasible.

Texas Gulf's production of sulphur in 1967 amounted to more than 3 million long tons, an increase of 0.2 per cent over 1966. Total United States production increased 0.5 per cent to 9.2 million tons. Free World production increased nearly 6 per cent to a total of 25.6 million tons.

During 1968 Texas Gulf will begin adding substantially to production in three areas—Western Canada, Louisiana and Mexico—and other areas are under active investigation.

Late in 1967 sulphur production was resumed by our affiliated Mexican company, Compañía Exploradora del Istmo (C.E.D.I.) at Nopalapa on the Isthmus of Tehuantepec. Construction of a melting plant was also completed at Nopalapa, and tow boats and liquid barges were built to begin shipments in 1968 from the Texas Gulf stockpile of more than 300,000 tons at Nopalapa. At nearby Texistepec, C.E.D.I. has completed about 30 exploratory wells which have increased sulphur reserves. Plans are under way to construct a plant there to produce about 500,000 tons per year provided satisfactory arrangements can be reached with the Mexican Government.

New TGS mine at Bully Camp

By mid-1968 Texas Gulf's new Frasch sulphur mine at Bully Camp, 40 miles southwest of New Orleans, Louisiana should be in operation with an annual capacity of more than 300,000 long tons.

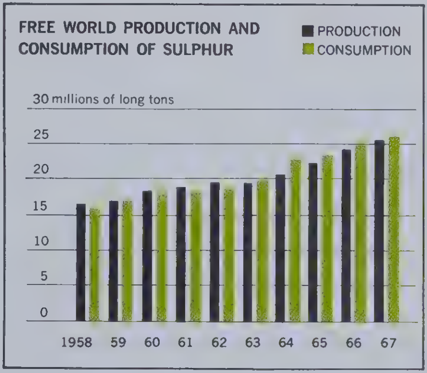
Although similar to TGS's five Frasch sulphur producing operations in Texas, the Louisiana mine differs in its construction features. Because of the marshy, canal-riddled location, it was necessary to design off-shore style facilities for Bully Camp. Drilling, water heating, and sulphur collection will all be carried out from specially designed barges. Dredging of canal bottoms required removal of 700,000 cubic yards of mud and dirt, and levies were constructed to create a 23-acre reservoir for mine water, to be drawn from the nearby Intracoastal Canal.

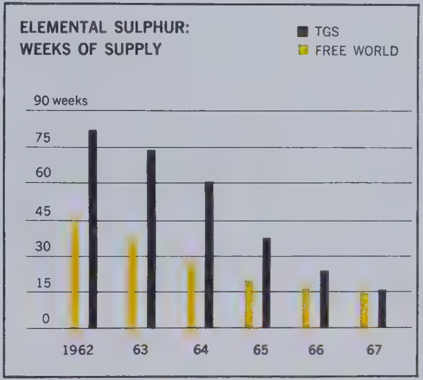
When the mine goes into operation, cold water treated in a land-based plant will be piped six miles through marshlands to the barge-mounted heating plant adjacent to the mining area. Hot water and steam lines radiate from the heating plant to ten well sites. Liquid sulphur raised from the mine will be piped to a floating sulphur station for metering, then shipped ten miles by canal and bayou on two 1,000 ton capacity shuttle barges to the Bully Camp terminal.

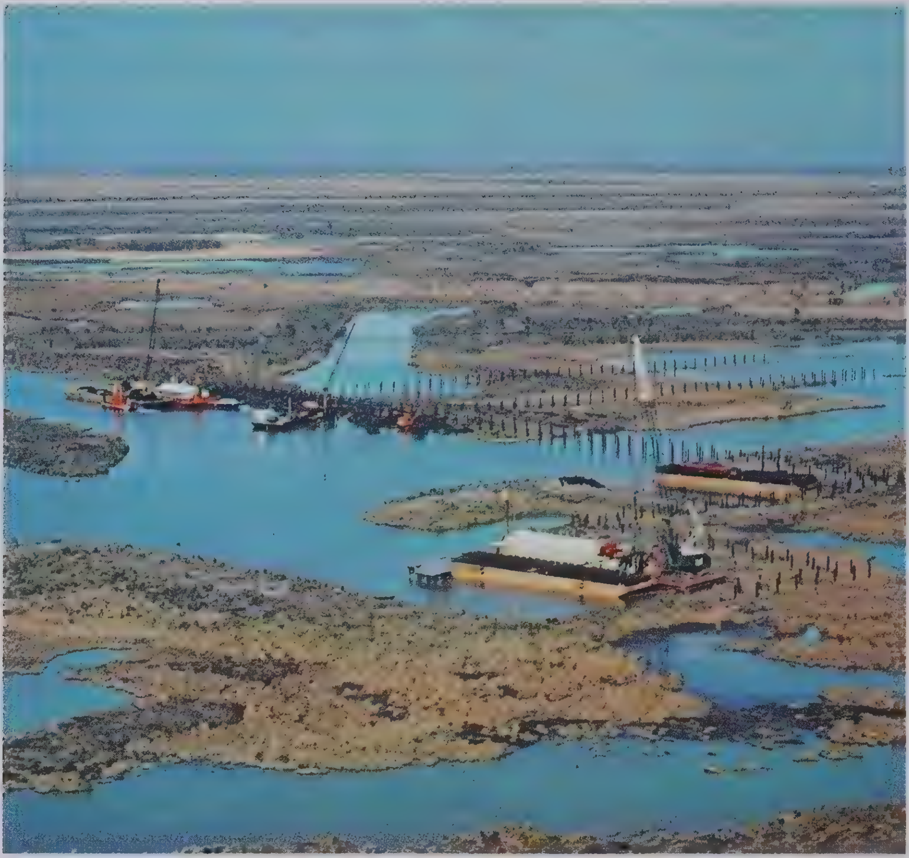
Sulphur search continues

Indicative of the industry-wide efforts to develop additional sources of sulphur is the expenditure of about $40 million by several sulphur and oil companies in exploration off the coast of Texas in the last two years. TGS's venture there was written off in 1966 after an expenditure of over $1,250,000. During 1967 other companies also announced that sulphur in commercial quantities had not been found.

Demand for sulphur is expected to continue to increase and exploration for sulphur is under way on all continents. Hopes for an early end to the current shortage will depend on the speed with which (1) new reserves are discovered; (2) presently known but hitherto uneconomical and therefore still undeveloped reserves are brought into production; and (3) other higher-cost forms of sulphur are tapped and developed. These include principally pyrite, which is iron sulphide, and gypsum, which is calcium sulphate.







Aerial view of the marshy, canal-riddled area at Bully Camp, 40 miles southwest of New Orleans, Louisiana, site of Texas Gulf's newest Frasch sulphur mine. Construction of shore-based and barge-mounted facilities proceeded on schedule in 1967. Production at the rate of more than 300,000 long tons per year is scheduled to begin by mid-1968.

Construction of land-based facilities at Bully Camp included an office, warehouse, water treating plant and shipping terminal.

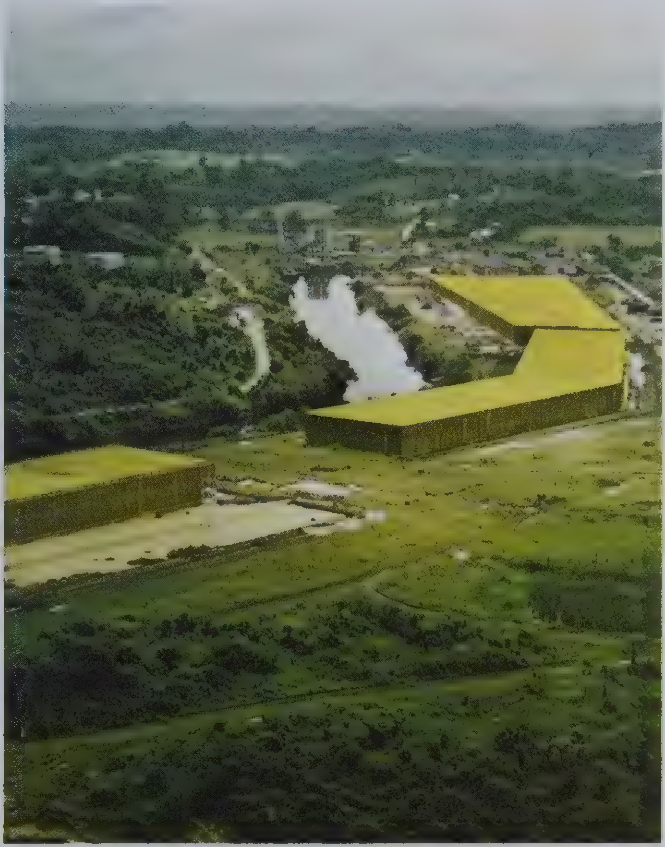
Aerial view shows foundations in place for land-based facilities as construction progressed during 1967.

All materials required for the Bully Camp construction were delivered in barges. When the plant is completed, drilling, water heating, and sulphur collection will all be carried out on barge-mounted facilities.

Six miles of pipe were laid through Bully Camp's marshlands. The pipeline will carry treated water to the mining area.

In addition to sea-going tankers, Texas Gulf has a fleet of barges, tank cars and trucks which deliver liquid sulphur to customers and TGS terminals. In the above picture a liquid barge is being loaded for shipment by inland waterways.

During 1967 sulphur production was resumed by Texas Gulf's affiliated Mexican Company, Compañía Exploradora del Istmo (C.E.D.I.) at Nopalapa on the Isthmus of Tehuantepec.



Aerial view of Nopalapa, Mexico, including the storage vats which include an inventory of about 300,000 long tons of sulphur which belongs to Texas Gulf.

Gas Division: Sulphur recovery in Canada increased

Sulphur recovered from sour natural gas is produced by the Gas Division at Whitecourt and Okotoks in Alberta, Canada. Production increased 5.6 per cent in 1967 to a total of 427,600 long tons at Whitecourt and Okotoks.

A small amount of sulphur was produced at Texas Gulf's pioneering sulphur recovery plant in Worland, Wyoming. In September the Worland plant was closed as the result of the depletion of sour gas reserves after 18 years of operation. During that time it produced 1,013,490 long tons of sulphur and provided valuable experience in the design and operation of this type of plant.

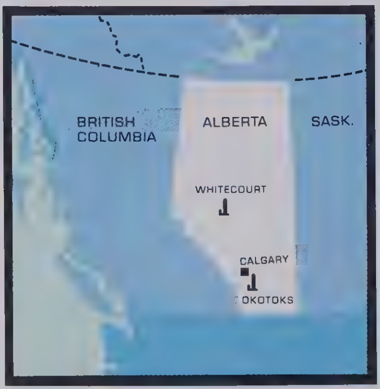
Expansion of the Whitecourt plant, increasing its capacity by 200,000 tons to a total of 685,000 long tons per year, will be started soon. It will be completed late in 1968. The Okotoks plant continued to operate at design capacity of more than 140,000 long tons per year in 1967.

Oil and Gas produced in Canada and United States

Texas Gulf's share of oil and gas produced on the Gulf Coast of the United States and in Western Canada in 1967 included 297,890 barrels of oil and condensate, compared to 334,800 in 1966, and 9,557,650 thousand cubic feet of gas, compared with 8,280,000 thousand cubic feet in 1966.

Gas sales from the North Jeanerette field, St. Mary Parish, Louisiana to the Michigan Wisconsin Pipeline Company began in 1967 and amounted to 1,347,710 thousand cubic feet during the year.

Annual capacity for the recovery of sulphur at the TGS plant at Whitecourt, Alberta, Canada will be increased by 200,000 long tons to a total of 685,000 long tons per year. Construction will start soon and is scheduled for completion late in 1968.



For solid shipment, vats are broken up by bulldozer and the solidified sulphur is loaded into hopper cars.

Financial Review

Summary

Financial results of 1967, the most profitable year in the company's history, included:

Net income of $62,101,721 compared to $28,095,817 in 1966, an increase of $34,005,904, or 121 per cent. Net income per share was $6.15, compared to $2.80 in 1966.

Cash earnings or funds from operations (net income after taxes plus non-cash charges against income, including non-current deferred Federal income taxes, depreciation and amortization) rose to $93,202,000 from $43,449,000 in 1966, up 115 per cent. On a per share basis, cash earnings increased from $4.32 to $9.24.

Gross sales amounted to $253,098,544, an increase of $120,380,372, or 91 per cent over 1966.

Earnings reinvested in the business in 1967 amounted to $58,071,747, bringing stockholders' equity to a total of $235,521,567 by year end.

Working capital increased from $33,528,733 to $69,712,044, up 108 per cent.

Operations at the Kidd Creek Mine and further improved results from sulphur operations accounted for the marked increase in cash earnings. The company was able to make a net repayment of $31,000,000 of debt and to increase working capital by $36,000,000, including $7,000,000 of short-term cash investments. Capital expenditures were nearly $34,000,000, compared to $140,000,000 in 1966. During the year, a total of $4,029,974 in dividends was paid at the annual rate of 40 cents per share. The present strong financial position, including the demonstrated higher level of cash earnings, will enable the company to carry forward with its plans for the future.

Earnings and Dividends

The largest dollar contributor to the $34,000,000 increase in net income was the Kidd Creek Mine which made its first substantial contribution with nearly a full year of operations. Gross profit from sulphur also increased and continued to be the mainstay of the company's business.

A full year of operations at Kidd Creek should be reflected in 1968 earnings, with results dependent upon prices for zinc, copper, and silver. Sulphur production is also expected to increase, although tonnage sales will be lower because inventories have been reduced to a minimum working level. Sulphur price trends should continue to be favorable, with the growth in demand far exceeding any prospects of increasing supplies.

The 182nd through 185th consecutive quarterly dividends were paid in 1967, at the annual rate of $.40 per share. In December the Board of Directors declared its intention to continue that rate per share after the proposed 3-for-1 split of the company's common stock, assuming continued favorable economic conditions.

Sales

During 1967 gross sales increased 91 per cent over the previous year. Phosphate fertilizer materials available for the first time and higher potash sales tonnage, in addition to increased sulphur and metals sales, helped to achieve this record.

Overproduction in the potash industry resulted in falling prices throughout the year. The immediate outlook is for a continuation of depressed prices. Prices for phosphate fertilizers have not yet reflected the increased costs of sulphur but could show improvement in view of the long-term growth in demand.

Metal sales are in two forms—sales of metals and sales of metal concentrates. In both cases sales are determined on the basis of the total metal values. With respect to sales of metal concentrates, contract prices reflect a reduction for smelting charges and metal-value deductions. During 1967 such reductions amounted to approximately $30,400,000 and are included in costs and expenses.

Costs and Expenses

Operating, delivery and other costs totaled $159,919,600 in 1967. The increase of $73,556,329 over 1966 came primarily from the new operations in metals and phosphate fertilizers. Cost of sulphur sales per ton was about the same. Sales of potash tonnage increased approximately 17 per cent, and production efficiencies further reduced unit cost of sales.

Expanded exploration programs resulted in additional charges against earnings in 1967. The company's practice is to set up a reserve currently for 100 per cent of exploration work until it is proven successful. Overhead expenses remained about the same, despite the marked increase in revenues and earnings. Interest expense amounted to $6,835,279, up $2,103,072 over 1966, because of an increase in the average debt outstanding during the year of $40,000,000.

Federal income tax expense rose sharply, consistent with the increase in pre-tax earnings. The amortization of 7% investment tax credits amounted to $600,000 in 1967. Also included are U.S. taxes for Ecstall Mining Limited, the wholly owned subsidiary which owns and operates the Kidd Creek Mine. Ecstall's U.S. taxes reflect the lower effective rate afforded qualifying Western Hemisphere Trade Corporations.

Working Capital

The ratio of current assets to current liabilities at year end was 4.0 to 1. Cash and short-term cash investments increased $9,512,000. Short-term notes payable in the amount of $11,344,000 were repaid while accounts payable increased $5,708,000.

Accounts receivable were up at year end by $13,334,000 as a result of the substantial increase in gross sales. The $10,371,000 increase in inventories was primarily attributable to copper concentrates being processed at the smelter, and finished fertilizer materials in storage at year end in anticipation of the spring season.

Property, Plant and Equipment

During 1967 the company's net investment in property, plant and equipment increased $13,301,000 to a total of $288,685,344.

Generally, depreciation and amortization of operating properties are computed on the estimated useful or physical life, whichever is shorter. Depreciation and amortization provided during the year was $16,070,000 compared to $6,622,000 in 1966.

Capital Expenditures

Capital expenditures in 1967 were nearly $34,000,000. This included $11,400,000 for the Kidd Creek Mine and $3,800,000 for the Lee Creek, North Carolina phosphate fertilizer complex. Exploration, Frasch Sulphur, Potash, Trona and other projects accounted for the remainder of the 1967 total.

Capital expenditures for 1968 are budgeted at nearly $45,000,000. Included are projects which were underway in 1967 and normal replacement and improvements in the operating divisions. The development of the sulphur mines of our Mexican affiliate and the expansion of the Whitecourt sulphur recovery plant in Alberta, Canada are included in the total. The exploration budget has again been increased.

Financing

In the first quarter of 1967 total company debt outstanding reached a peak of $150,000,000. By year end $15,000,000 of short-term debt and $20,000,000 of medium-term debt had been repaid.

The remaining $60,000,000 of medium-term debt and the $20,000,000 that was repaid were available under credit agreements providing for a revolving period of two years, with the right to convert such amounts to borrowings for an additional term of five years. Interest, at the prime rate existing when negotiated, is at 5% with respect to $60,000,000 and 5½% with respect to $20,000,000 during the revolving period and the first year of the five year term. These rates increase ¼% for the remaining four years of the term.

On February 1, 1968, the end of the two year revolving period, the $20,000,000 was re-borrowed, and the total $80,000,000 was converted to five year term loans. Under the terms of the notes $10,000,000 is repayable at the end of each of the first two years, and $20,000,000 at the end of each of the last three years.

Although cash requirements as presently budgeted for 1968 should readily be satisfied from cash generated internally during the year, the decision was made to borrow the full amount available under the favorable terms of the credit agreements even though a portion would be in excess of immediate needs. In view of the difficult money market conditions of the recent past, the unsettled outlook for the future, including uncertain monetary and business conditions both at home and abroad, adequate liquidity and financial strength are vital to carry forward the company's future plans.

Taxes

Deferred federal income taxes represent the tax effect of the excess deduction for tax purposes over financial-statement purposes of items such as depreciation and development costs. The tax effect is deferred to future periods, to be associated with the financial-statement deduction of these items. Deferred taxes applicable to inventory in the amount of $2,535,000 are shown among current liabilities in accordance with established accounting practice.

The liability for Federal income taxes payable is reported at $1,950,000. Reflected in this figure is the final utilization of a tax loss carry-forward that resulted from the deduction in prior years of items similar to those included in deferred taxes. The liability was also reduced by 7% investment tax credits which for purposes of income tax expense are amortized over the useful lives of the related assets.

Tax payments with respect to 1968 income will be made during the year based on the 1967 liability for Federal income taxes. However, the total liability for 1968 will be substantially greater than these current payments, and final payments will have to be made in the first part of 1969. The funds generated during the year to make these payments will be placed in short-term cash investments.

Consolidated Statement of Income and Retained Earnings

	Year ended December 31 1967	Year ended December 31 1966
Gross Sales	$253,098,544	$132,718,172
Royalties, Interest and Other Income	3,778,436	3,337,809
	256,876,980	136,055,981
Costs and Expenses		
Operating, delivery and other related costs and expenses, including exploration	159,919,600	86,363,271
Selling, general and administrative	10,270,380	9,764,686
Interest	6,835,279	4,732,207
Federal income taxes	17,750,000	7,100,000
	194,775,259	107,960,164
Net income for the Year	62,101,721	28,095,817
Retained Earnings January 1	176,967,415	152,889,016
	239,069,136	180,984,833
Deduct cash dividends	4,029,974	4,017,418
Retained Earnings December 31	$235,039,162	$176,967,415
Net Income Per Share	$6.15	$2.80
Dividends Per Share	$ .40	$ .40
Number of Shares Outstanding	10,091,504	10,048,319

See accompanying notes to financial statements

Texas Gulf Sulphur Company and Consolidated Subsidiaries

Consolidated Balance Sheet

ASSETS

	December 31 1967	December 31 1966
Current Assets		
Cash	$ 10,642,195	$ 8,128,827
Short-term cash investments	6,999,075	—
Accounts receivable	39,098,971	25,765,123
Inventories of minerals and products at lower of average cost or market	28,999,394	18,628,329
Materials and supplies at average cost	6,958,632	4,731,312
Total Current Assets	92,698,267	57,253,591
Investments, Advances and Other Assets		
Securities of and advances to unconsolidated subsidiaries and affiliates, less reserve for exploration costs, $2,012,550 in 1967 and $1,312,630 in 1966	7,831,289	5,368,739
Advance payments relating to potash property	13,668,057	13,275,257
Notes receivable, advances and other assets	8,066,613	9,824,752
	29,565,959	28,468,748
Property, Plant and Equipment at cost		
Lands, contract rights and development	125,663,801	118,996,497
Plants, buildings, machinery and equipment	255,186,478	236,609,877
	380,850,279	355,606,374
Less accumulated depreciation and amortization	92,164,935	80,222,197
	288,685,344	275,384,177
Deferred Charges	1,628,530	1,931,433
	$412,578,100	$363,037,949

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31 1967	December 31 1966
Current Liabilities		
Short-term notes payable	$ —	$ 11,344,375
Accounts payable and accrued liabilities	17,069,840	11,362,028
Federal income taxes payable	1,950,000	—
Other taxes payable	1,431,361	1,018,455
Deferred Federal income taxes applicable to inventories	2,535,022	—
Total Current Liabilities	22,986,223	23,724,858
Non-Current Notes Payable		
Notes payable under revolving credit agreements	60,000,000	80,000,000
4.70% Notes, due 1989	55,000,000	55,000,000
	115,000,000	135,000,000
Deferred Federal Income Taxes	39,070,310	27,900,210
Stockholders' Equity		
Capital stock, without par value—Authorized 15,000,000 shares; issued 11,520,000 shares	26,175,000	26,175,000
Capital surplus from sale of treasury stock	497,686	252,472
Retained earnings, invested in the business	235,039,162	176,967,415
	261,711,848	203,394,887
Less cost of treasury stock (1,428,496 shares in 1967 and 1,471,681 shares in 1966)	26,190,281	26,982,006
Stockholders' Equity	235,521,567	176,412,881
	$412,578,100	$363,037,949

See accompanying notes to financial statements

Ten Year Financial Review

	1967	1966	1965
Income (in thousands of dollars)			
Gross sales	$253,099	$132,718	$ 98,981
Royalties, interest and other income	3,778	3,338	3,301
Operating, delivery and other related costs and expenses, including exploration	159,920	86,363	70,762
Selling, general and administrative expenses	10,270	9,765	7,362
Interest expense	6,835	4,732	2,597
Federal income taxes	17,750	7,100	3,400
Net income	62,102	28,096	18,161
Financial Position (in thousands of dollars)			
Current assets	92,698	57,254	64,500
Current liabilities	22,986	23,725	12,043
Working capital	69,712	33,529	52,458
Product inventory	28,999	18,628	19,738
Property, plant and equipment—net	288,685	275,384	145,407
Total assets	412,578	363,038	240,884
Non-current notes payable	115,000	135,000	55,000
Stockholders' equity	235,522	176,413	151,987
Other Data			
Net income per share	6.15	2.80	1.81
Dividends per share	.40	.40	.40
Number of stockholders	48,529	49,553	47,911
Number of shares outstanding	10,091,504	10,048,319	10,034,119

1964	1963	1962	1961	1960	1959	1958
$ 70,370	$ 62,249	$ 58,971	$ 58,949	$ 58,935	$ 63,597	$ 57,057
2,906	1,327	1,881	1,997	2,263	1,271	880
52,173	47,625	40,569	39,607	39,129	41,648	35,423
6,043	5,047	4,396	4,006	4,635	5,182	5,631
2,304	—	—	—	—	—	—
1,200	1,550	3,750	4,750	4,750	4,700	3,500
11,556	9,354	12,137	12,583	12,684*	13,338	13,383
97,204	64,772	55,826	75,241	82,184	75,969	72,223
10,033	17,797	4,397	6,375	3,543	6,817	5,770
87,171	46,975	51,429	68,866	78,641	69,152	66,453
24,026	27,717	30,315	28,534	26,453	26,850	29,149
92,380	72,732	62,111	41,857	35,019	33,308	31,400
220,643	187,283	141,601	133,875	125,403	123,565	119,445
55,000	—	—	—	—	—	—
137,382	129,715	124,512	117,886	115,323	111,625	110,560
1.15	.93	1.21	1.26	1.27*	1.33	1.34
.40	.40	.55	1.00	1.00	1.00	1.00
50,821	64,918	71,829	71,997	74,666	74,168	71,086
10,015,899	10,011,199	10,020,000	10,020,000	10,020,000	10,020,000	10,020,000

*Excludes extraordinary income of $1,034,000 or 10¢ per share.

Officers and Staff

Claude O. Stephens
President

Charles F. Fogarty
Executive Vice President

Hubbard S. Caven
Vice President, Austin, Texas

David M. Crawford
Secretary and Manager of
Public and Government Relations

H. V. W. Donohoo
Vice President and General Manager
Potash Division, Moab, Utah

James W. Estep
Vice President and General Manager
Gas Division, Calgary, Alberta

Walter Holyk
Vice President and General Manager of
Exploration, Toronto, Ontario

Harold B. Kline
Vice President and General Counsel

Guy T. McBride, Jr.
Vice President and General Manager
Phosphate Division, Aurora, North Carolina

Gordon N. McKee, Jr.
Treasurer

Ira E. McKeever, Jr.
Vice President
Frasch Sulphur Division, Houston, Texas

Walter F. Meyer
Controller

Richard D. Mollison
Vice President
Metals Division, Toronto, Ontario

A. Nelson Myers
Vice President, Marketing Division

Thomas P. Townsend
Vice President

Administrative	John A. Murray	Office Manager
	Kenneth J. Kutz	Administrative Assistant
Corporate Personnel	Gino P. Giusti	Manager
	William O. Britt	Compensation Manager
	Thomas G. Downing	Assistant to the Manager
	Bernard J. Goodman	Payroll Supervisor
	F. Wayne White	Supervisor of Employee Benefits
Exploration	Elgin D. Bell	Regional Manager of Exploration, Calgary
	David A. Lowrie	Regional Manager of Exploration, Toronto
	Frank R. Moulton, Jr.	Regional Manager of Exploration, Houston
	John F. Macdougall	Senior Geologist, Calgary
	George W. Mannard	Senior Geologist, Toronto
	George Podolsky	Senior Geophysicist, Toronto
	James A. L. White	Mineral Economist, Toronto
	Paul C. Gilmour	District Geologist, Tucson, Arizona
	J. Russell Loudon	District Geologist, Vancouver, British Columbia
	Robert M. Slipp	District Geologist, Raleigh, North Carolina
Finance	James A. Campbell	Assistant Controller
	John T. Duffy	Assistant Controller
	James J. Finn	Assistant Controller
	Robert P. Hedley	Assistant Treasurer
	William F. Seamon	Credit Manager
Legal	Joseph C. Brown	Counsel, Houston
	John D. Hartigan	Counsel and Assistant Secretary
	George W. Hugo	Counsel, Houston
	Earl L. Huntington	Counsel and Assistant Secretary
	David L. James	Counsel
	Charles W. Wilder	Counsel
Public Relations	William D. Askin	Editor, Golden Triangle Magazine, Houston
	James A. Cox	Assistant, Public Relations
Research	James R. West	Manager
	Robert J. Boyle	Assistant Manager
	Arthur Gloster	Assistant Manager
	J. Frank Henderson	Assistant Manager
	Jack H. McLellan	Assistant Manager

Unless otherwise indicated location is New York

Marketing Division

Sulphur and Metal Sales	John W. Hall, Jr.	Manager
	Frank J. Claydon, Jr.	Assistant Sales Manager, Sulphur
	H. Newton Cunningham, Jr.	Assistant Sales Manager, Sulphur, Houston
	Walter B. Gillette	Assistant Sales Manager, Sulphur
	Kent D. Hoffman	Assistant Sales Manager, Metals
Potash and Phosphate Sales	Bryan W. Guess	Manager
	Charles E. Martin	Assistant Manager
	Robert L. Borg	Midwest Sales Manager, Chicago, Illinois
	Samuel E. Hardwick, Jr.	Northeast Sales Manager, Richmond, Virginia
	Jack T. Jones	Southeast Sales Manager, Atlanta, Georgia
	Charles T. Odum, Jr.	Southwest Sales Manager, Houston
Traffic	Stephen F. Gilmore	General Traffic Manager, Houston
	R. C. Ballard Trigg	Traffic Manager, Houston
	William A. Carson, Jr.	Assistant Traffic Manager, Potash, Houston
	William Hansen, Jr.	Assistant Traffic Manager
	Maurice S. Weber	Assistant Traffic Manager, Sulphur, Houston
	William H. Johnston	Manager of Technical Services, Sulphur, Houston
Advertising	Jerry L. Cramer	Manager
Marketing Research	Serge L. Levitsky	Manager
	Jeanne M. Collins	Senior Market Analyst
	James A. Orser	Senior Market Analyst

Operating Divisions

Armstrong Forest Division	**Johnsonburg, Pennsylvania**	
	Arthur L. Bennett	General Manager
Frasch Sulphur Division	**Newgulf, Texas**	
	E. Orys Mason	General Manager
	Clifford L. Barr	Assistant General Manager
	Charles F. Drees	Assistant General Manager, Beaumont, Texas
	R. Lindsey Carter, Jr.	Manager of Purchasing and Warehousing
	Murray O. Clapp	Traffic Manager
	Edward H. Conroy, Jr.	Manager of Quality Control
	Kenneth D. Bishop	Manager of Electrical Department
	Earl W. Hanna	Office Manager
	Edmond Herschap, Jr.	Manager of Personnel and Industrial Relations
	George W. Lowther	Manager of Power Plants
	Robert L. McDaniel	Manager of Beaumont Terminal, Beaumont
	Frank A. Nice, Jr.	Manager of Petroleum Production, Houston
	Walter B. Preston	Manager of Mechanical Maintenance
	Raymond J. Staffa	Manager of Engineering
	Ray Ward	Resident Manager, Beaumont
	Arnold F. Zemanek	Manager of Field Operations
Gas Division	**Calgary, Alberta**	
	Frederick J. Ronicker	Assistant General Manager
	Elmer M. Berlie	Plant Manager, Okotoks, Alberta
	Douglas H. Church	Chief Petroleum Engineer
	T. Stafford Mosher	Chief Accountant
	Edward W. Plum	Special Projects Engineer
	James J. Rennie	Traffic Superintendent, Whitecourt, Alberta
	Garry A. Smith	Production Engineer

Metals Division

**Ecstall Mining Limited,
Kidd Creek Mine, Timmins, Ontario**

F. Raymond Jones	Vice President and General Manager
David G. Baskin	Traffic Superintendent
P. Ray Clarke	Mill Superintendent
Donald F. Grenville	Personnel and Industrial Relations Superintendent
Gerard F. O'Halloran	Maintenance Superintendent
Alan G. Perry	Engineering Superintendent
James B. Shannon	Mine Superintendent
Donald P. Taylor	Chief Accountant

Toronto, Ontario

R. Hugh Clayton	Supervisor of Special Projects
Robert J. C. Tait	Chief Metallurgist

Phosphate Division

Aurora, North Carolina

David C. Edmiston, Jr.	Assistant General Manager
Cecil W. Bradley	Traffic Superintendent
June W. Crawford	Engineering Services Superintendent
Harvey A. Franz Jr.	Chief Accountant
Donald D. Marston	Mine Superintendent
Earl M. Mason	Purchasing Agent
John S. Myrick	Acid Plants Superintendent
James R. Paden	Fertilizer Plants Superintendent
George R. Phillips	Personnel and Industrial Relations Superintendent
Theodore B. Simpson	Technical Services Superintendent
Thomas J. Wright	Mill Superintendent

Potash Division

Moab, Utah

Bill L. Bessinger	Assistant General Manager
Floyd E. Albertson	Mill Superintendent
Anthony J. Fratto	Maintenance Superintendent
Kurt Linn	Supervisor of Special Projects
Frank J. Peternell	Supervisor of Safety
J. G. Pinkerton	Administrative Manager
Richard C. Reynolds, Jr.	Supervisor of Personnel and Industrial Relations
Everett L. Schumaker	Purchasing Agent
Edward F. Ziolkowski	Mine Superintendent

**Trona Project
Green River, Wyoming**

James H. Ogg	Project Manager

Subsidiaries

Australian Inland Exploration Company	Leo J. Miller	President, Perth, Australia
Ecstall Mining Limited	Charles F. Fogarty	President
	Richard D. Mollison	Executive Vice President, Toronto

Affiliates

Cia. Exploradora del Istmo, S.A. (C.E.D.I.)	Robert M. Stoy	TGS Chief Technical Adviser to C.E.D.I., Coatzacoalcos, Mexico
Sulphur Export Corporation	Ernest A. Graupner	President
	Herbert R. Miller	Vice President

TGS **Texas Gulf Sulphur Company**